

SAMPLE MENTAL HEALTH CENTER

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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State Capitol Building
Des Moines, Iowa 50319-0004

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Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 230A.16(3) of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client. This sample is prepared based on a non-profit corporation providing mental health services on the basis of an agreement with the County Board of Supervisors as provided for in Chapter 230A.3(2) of the Code of Iowa. Some counties may provide mental health services through the establishment of an elected Board of Trustees pursuant to Chapter 230A.3(1) of the Code of Iowa. This organizational structure may necessitate the consideration of the Governmental Accounting Standards Board's guidance on "The Financial Reporting Entity" and, therefore, other reporting criteria may be applicable.

Audits of community mental health centers should be performed in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Chapter 11.6 of the Code of Iowa requires a review of internal control and testing of transactions for compliance.

This sample report has been prepared in conformity with U.S. generally accepted accounting principles as set forth in the AICPA Industry Audit Guide, Audits of Voluntary Health and Welfare Organizations. The format shows the financial statements and the report on compliance and internal control which are necessary to meet the requirements of this office. The detail presented in the financial statements is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the entity feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

Depreciation expense has been recognized in these financial statements as recommended by the Industry Audit Guide and as required by Financial Accounting Standards Board Statement Number 93.

Entities with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Any questions concerning Single Audit requirements should be directed to the Center's cognizant or oversight agency.

In accordance with OMB Circular A-133, one copy of the reporting package and Data Collection Form shall be submitted within 30 days after issuance of the audit report to a central clearinghouse. The Data Collection Form is available by calling 1-800-253-0696 (Form number SF-SAC) or on the Federal Audit Clearinghouse (FAC) website at <http://harvester.census.gov/sac/>. Auditees are encouraged to use the on-line Internet

submission option available on the FAC website. Submission of the on-line Internet Form SF-SAC will require the user to submit a hard copy of the final form with the auditee and auditor signatures. Additional copies of the reporting package or notifications of audit should be submitted to the central clearinghouse or to grantor pass-through entities in accordance with the filing requirements of the Circular.

The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. Reporting packages should be submitted to:

Federal Audit Clearinghouse
Bureau of the Census
PO Box 5000
Jeffersonville, IN 47199-5000

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

Reports, including the management letter(s) if issued separately, are to be filed with this office within nine months following the end of the fiscal year subject to audit. However, reports should be filed with this office upon release to the entity. The per diem audit billing (including fee, expenses and hours) should be submitted with the reports filed with our office.

Beginning with audit reports issued for the year ending June 30, 2004, we will be providing internet access to reports issued by CPA firms to accompany our own reports which are already accessible through the internet. To allow this, you should submit an electronic copy of each FY2004 audit report, in PDF format, to our office in addition to the two paper copies submitted. The PDF files should be e-mailed to submitreports@auditor.state.ia.us.

In accordance with Chapter 230A.16(3) of the Code of Iowa, a copy of the report should also be filed with the administrator of the Iowa Department of Human Services, Mental Health/Developmental Disabilities Division, and with each County Board of Supervisors supporting the mental health center.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the entity for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the entity and a copy should be sent to this office with two copies of the audit report sent by the CPA firm. We will make a copy of the audit report and news release available to the news media in this office.

In accordance with Chapter 11 of the Code of Iowa, this office is to be notified immediately regarding any suspected embezzlement or theft.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to local governments and related entities. Together, we are able to provide a significant benefit to all taxpayers in the State.

DAVID A. VAUDT, CPA
Auditor of State

**Sample Mental Health Center
Outline of Major Changes**

1. Updated single audit threshold to \$500,000 from \$300.000.
2. An electronic copy of the audit report, in PDF format, is to be submitted in addition to the required paper copies.



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STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____

Contact:

Auditor of State David A. Vaudt today released an audit report on Sample Mental Health Center, Anywhere, Iowa.

The Center had public support and revenues of \$_____ for the year ended June 30, 200_, which was a(n) _____ percent increase (decrease) from the prior year. Public support included \$_____ from _____ County and revenue included \$_____ of patient fees and Title XIX.

Expenses for the Center's operations totaled \$_____, a(n)_____ percent increase (decrease) from the prior year. Expenses included \$_____ for community services, \$_____ for mental health center programs and \$_____ for support services.

The significant increase (decrease) in revenues and expenses is due primarily to _____.

A copy of the audit report is available for review in the Office of Auditor of State and the Sample Mental Health Center office.

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SAMPLE MENTAL HEALTH CENTER

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS**

JUNE 30, 2004

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Sample Mental Health Center

Board of Directors

<u>Name</u>	<u>Title</u>	<u>Expires</u>
Mary Smith	President	Jan 2007
Bill Jones	Vice-President	Jan 2009
Joe Miller	Secretary	Jan 2005
Nancy Moore	Treasurer	Jan 2007
Sue Long	Member	Jan 2005
Jane Brown	Member	Jan 2007
Bob Martin	Member	Jan 2009
George Hays	Executive Director	Indefinite

Sample Mental Health Center



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Independent Auditor's Report

To the Board of Directors of
Sample Mental Health Center:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of Sample Mental Health Center, Anywhere, Iowa, as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Mental Health Center at June 30, 2004 and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2004 on our consideration of Sample Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

September 20, 2004

DAVID A. VAUDT, CPA
Auditor of State

Sample Mental Health Center

Financial Statements

Sample Mental Health Center
Statement of Financial Position
June 30, 2004

	<u>Current Fund</u> <u>Unrestricted</u>
Assets	
Cash and cash equivalents	\$ 64,000
Accounts receivable for patient services, less allowance for doubtful accounts (\$4,300)	50,319
Prepaid expenses	4,090
Property and equipment at cost, less accumulated depreciation of \$133,775 (note 2)	<u>-</u>
Total assets	<u>\$ 118,409</u>
Liabilities and Net Assets	
Liabilities:	
Accounts payable	\$ 5,016
Compensated absences	<u>4,300</u>
Total liabilities	9,316
Net assets - unrestricted	<u>109,093</u>
Total liabilities and net assets	<u>\$ 118,409</u>

See notes to financial statements.

Land, Building and Equipment Fund	Total
-	64,000
-	50,319
-	4,090
<u>279,640</u>	<u>279,640</u>
<u>279,640</u>	<u>398,049</u>
-	5,016
-	4,300
-	9,316
<u>279,640</u>	<u>388,733</u>
<u>279,640</u>	<u>398,049</u>

Sample Mental Health Center

Statement of Activities

Year ended June 30, 2004

	<u>Current Fund</u> <u>Unrestricted</u>
Public support and revenues:	
Public support:	
Sample County	\$ 413,599
Local County	31,503
Anywhere County	60,338
Prevention and Treatment of Substance Abuse Block Grant	500
Community Mental Health Services Block Grant	26,000
Contributions	<u>852</u>
	<u>532,792</u>
Revenues:	
Patient services and Title XIX	141,249
Investment income	<u>7,837</u>
	<u>149,086</u>
Total public support and revenues	<u>681,878</u>
Expenses:	
Program services:	
Community services programs	104,906
Mental health center programs	<u>444,076</u>
	548,982
Support services	<u>165,273</u>
Total expenses	<u>714,255</u>
Change in net assets from operations	(32,377)
Other changes:	
Property and equipment acquisitions	(33,580)
Net assets beginning of year	<u>175,050</u>
Net assets end of year	<u>\$ 109,093</u>
See notes to financial statements.	

Land, Building and Equipment Fund	Total
-	413,599
-	31,503
-	60,338
-	500
-	26,000
-	852
-	<u>532,792</u>
-	141,249
-	<u>7,837</u>
-	<u>149,086</u>
-	<u>681,878</u>
-	104,906
<u>18,183</u>	<u>462,259</u>
18,183	567,165
<u>4,546</u>	<u>169,819</u>
<u>22,729</u>	<u>736,984</u>
(22,729)	(55,106)
33,580	-
<u>268,789</u>	<u>443,839</u>
<u>279,640</u>	<u>388,733</u>

Sample Mental Health Center
Statement of Functional Expenses
Year ended June 30, 2004

	Program	
	Community Services Programs	
	Sample County	Local County
Salaries	\$ 67,340	17,444
Payroll tax	4,507	1,168
Employee group insurance	2,440	632
Retirement plan contribution	906	235
	<u>75,193</u>	<u>19,479</u>
Consultation	-	-
Rent	-	-
Dues and subscriptions	-	-
Repair and maintenance	-	-
Insurance	-	-
Postage	-	69
Professional fees	-	-
Professional supplies	-	-
Travel	636	2,802
Conferences	956	416
Utilities and telephone	-	705
Advertising	-	-
Office supplies	-	4,436
Emergency services	-	-
Provision for doubtful accounts	-	-
Miscellaneous	-	214
	<u>1,592</u>	<u>8,642</u>
Total expenses before depreciation	76,785	28,121
Depreciation	-	-
Total expenses	<u>\$ 76,785</u>	<u>28,121</u>

See notes to financial statements.

Services			
Mental Health Center Programs	Total	Support Services, Management and General	Total
238,803	323,587	118,302	441,889
15,978	21,653	7,919	29,572
8,649	11,721	4,287	16,008
3,210	4,351	1,591	5,942
266,640	361,312	132,099	493,411
108,346	108,346	-	108,346
780	780	-	780
1,720	1,720	430	2,150
14,850	14,850	3,712	18,562
7,735	7,735	860	8,595
1,731	1,800	433	2,233
-	-	7,684	7,684
748	748	-	748
1,865	5,303	1,980	7,283
4,161	5,533	1,817	7,350
11,692	12,397	2,923	15,320
1,161	1,161	-	1,161
-	4,436	12,791	17,227
10,003	10,003	-	10,003
12,100	12,100	-	12,100
544	758	544	1,302
177,436	187,670	33,174	220,844
444,076	548,982	165,273	714,255
18,183	18,183	4,546	22,729
462,259	567,165	169,819	736,984

Exhibit D

Sample Mental Health Center

Statement of Cash Flows

Year ended June 30, 2004

Cash flows from operating activities:	
Cash received from Counties	\$ 505,440
Cash received from Block Grants	26,500
Contributions received	852
Cash received from patient fees and Title XIX	142,100
Interest received	7,837
Cash paid to employees and suppliers	<u>(713,968)</u>
Net cash used by operating activities	(31,239)
Cash and cash equivalents beginning of year	<u>95,239</u>
Cash and cash equivalents end of year	<u>\$ 64,000</u>
Reconciliation of change in net assets to net cash used by operating activities:	
Change in net assets	\$ (32,377)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Decrease in accounts receivable	851
(Increase) in prepaid expenses	(90)
Increase in accounts payable	<u>377</u>
Net cash used by operating activities	<u>\$ (31,239)</u>

See notes to financial statements.

Sample Mental Health Center

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

A. Reporting Entity

Sample Mental Health Center is a non-profit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. Services are provided to residents of Sample, Local and Anywhere Counties.

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law which provide tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes.

The Center's financial statements are prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Financial Accounting Standards Board for non-profit corporations.

B. Fund Accounting

The accounts of the Center are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The various funds are summarized as follows in the financial statements:

Current Fund – The current fund accounts for all resources over which the Center has discretionary control to use in carrying on the operations of the organization in accordance with the limitations of its charter and bylaws except for amounts invested in land, buildings and equipment that may be accounted for in a separate fund.

The Center's Board may designate portions of the current fund for specific purposes, projects or investment as an aid in the planning of expenses and the conservation of assets. The Center maintains separate accounts for any designations within the current fund and segregates the designated and undesignated portions of the fund within the net assets section of the statement of financial position.

Land, Building and Equipment Fund – The land, building and equipment fund is used to accumulate the net investment in fixed assets and to account for the unexpended resources contributed specifically for the purpose of acquiring or replacing land, buildings or equipment for use in the operations of the organization.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Purchases of property and equipment providing future benefits are directly charged against the current fund balance and capitalized in the land, building and equipment fund.

D. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

E. Assets and Liabilities

The following accounting policies are followed in preparing the statement of financial position:

Cash and Cash Equivalents – The Center considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Receivables – Receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances.

Property and Equipment – Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of 3 to 40 years. No interest costs were capitalized since there were no qualifying assets.

Compensated Absences – Center employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Amounts representing the cost of accumulated compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2004.

F. Patient Services Revenue

Patient services revenue is reported at the estimated realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

G. Total Column

The total column on the statement of financial position and the statement of activities is presented to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Property and Equipment

A summary of property and equipment follows:

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 36,775
Building	306,753
Furniture and fixtures	<u>69,887</u>
Total cost	413,415
Less accumulated depreciation	<u>(133,775)</u>
Net	<u>\$279,640</u>

(3) Pension and Retirement Plan

The Center maintains a defined contribution retirement plan authorized by the Center's by-laws which is administered by XYZ Insurance Company. The plan is available to all full-time employees who have completed one year of service.

Under the terms of the plan, the Center contributes an amount equal to 5% of the annual salary for each employee participating in the plan. Additionally, each plan participant must contribute 3% of their annual salary and all such payments are accumulated and invested for individual participants of the plan. Amounts credited to individual participants are 100% vested immediately. The accumulated monies are paid upon a participant's retirement or termination.

For the year ended June 30, 2004, the Center's required and actual contributions amounted to \$5,942, which is 5% of its current year covered payroll of \$118,840. Employees' required and actual contributions amounted to \$3,565, which is 3% of the Center's current year covered payroll. The Center's total current year payroll for all employees was \$441,889.

(4) Risk Management

Sample Mental Health Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.



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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Directors of
Sample Mental Health Center:

We have audited the financial statements of Sample Mental Health Center, Anywhere, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sample Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of non-compliance that is described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sample Mental Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Sample Mental Health Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness. Prior year reportable conditions have been resolved except for item (A).

This report, a public record by law, is intended solely for the information and use of Sample Mental Health Center and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Mental Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA
Auditor of State

September 20, 2004

Sample Mental Health Center

Schedule of Findings

Year ended June 30, 2004

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the Center's financial statements. We noted one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Center should review the operating procedures to obtain the maximum internal control possible under the circumstances.

Response – We have reviewed procedures and plan to make the necessary changes to improve internal control.

Conclusion – Response accepted.

- (B) Restrictive Endorsement – A restrictive endorsement was not placed on checks received until the receipts were taken to the bank for deposit.

Recommendation – A restrictive endorsement “for deposit only” should be placed on checks when received to provide protection in case of theft or loss.

Response – We will endorse checks immediately upon receipt.

Conclusion – Response accepted.

Other Findings Related to Statutory Requirements and Other Matters:

- (1) Unallowable Costs – Of the \$3,000 in grant funds tested, \$197 was expended for inpatient hospital care which does not appear to be allowable in accordance with grant regulations.

Recommendation – The Center should contact the Iowa Department of Human Services to determine the disposition of this matter.

Response – We will contact the Iowa Department of Human Services immediately.

Conclusion – Response accepted.

Sample Mental Health Center

Staff

This audit was performed by:

Joan Q. Review, CPA, Manager
Jerome Warning, CPA, Senior Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State